

Housing Policy and Myanmar Market

Introduction:

As the government strives to modernize the country, the construction sector must play a vital role. New projects, initiated by both the public and private sectors are emerging almost daily and with each passing month, Myanmar moves closer to making a long- overdue recovery.

New condominiums, high-rise office buildings, apartments and low cost housing projects are mushrooming after the prolonged slump which followed the Asian Financial Crisis of 1997 and beyond. However, there is now a renewed interest in this long suffering sector.

Since the government started developing land and introducing new towns in suburban areas in 1988, the government has provided about 10,000 new apartments and houses a year. Over recent years, the Yangon City has only been able to supply about 2,000 new apartments and houses a year. On the hand the government subsidized the low cost housing projects in new towns. But today it is becoming increasingly difficult to build new towns, as providing the necessary housing and infrastructure is quite costly and the buying power of the people has decreased.

Current Economic Situation

Small and medium size business (SMES) and industries (SMIS) have difficulty in doing business under prevailing export, import and foreign currency restriction. Energy and fuel bottlenecks are also major problems of production and manufacturing industries. A more favorable business environment needs to be created to foster a dynamic private sector for economic growth. Consumer price inflation and assets' price bubbles have become serious economic and financial problems. Speculative buying and selling of assets--- gold, dollars, real estate including houses and apartments has become the main business instead of investment in productive activities. Cheap loans from banks are utilized for speculative activities.

Since the establishment of private banks in 1992 three crises have occurred. The current crises originated in two major banks and quickly spread to other banks. The sudden withdrawal of funds by customers resulted in liquidity problems amounting to bank runs in February, 2003. Liquidity problems turned into crises of confidence of some private banks. Business finds it difficult to operate in an environment of uncertainty and volatile policy decisions. The banking system is gradually improving and so is the lending situation. The bankers are confident that this will continue in 2004. Without bank loans, few people have been able to afford a house. Many of the smaller banks in Myanmar are seeing increased deposits compared to January, 2003—a cause for optimism for the banking system and property developers. Some private banks have some financing agreements with Yangon-based construction companies, by providing loans to homebuyers.

Existing Housing Policy and Planning

The government Housing Project Supervisory Committee (HPSC) especially officials from the Department of Human Settlement and Housing Development for the Ministry of Construction and the Yangon City Development Committee are responsible for guiding and inspecting city's housing projects. They are planning to make the city more beautiful and string to provide a higher living standard for Yangonites.

The Government has a plan to develop more high-rises projects. The project approval process has made such developments easier for property developers, but to speed up the process, construction permits are being granted for one year only. Previously it was very difficult for a Myanmar company to get a permit to build high rises structures. Before the government expanded the city horizontally, but now it plan to develop it vertically.

The government emphasizes the building of high-rises in down town or prime residential areas where infrastructure is better than anywhere in the city, so it can reduce the overall cost. The Government was now encouraging the private developers to build high -rises. A high-rise is defined as a building taller than nine stories. All high- rise buildings must be approved by the HPSC.

According to government figures, permits have been issued for about (40) high- rise buildings in the city during 2003. Some approved high- rises are as tall as (27) levels higher than any existing building in Yangon. As an incentive for the private developers who build on the department's land, it take only (20%) of the development, which is reduction from up to a (50%) stake as was previously the case in some prime areas. That will help decrease housing prices significantly as more people can than afford to buy. However, building costs have increased by about (50%) in the last (12) months.

Nowadays the least expensive apartments in Yangon cost about K (4) million, which is still far beyond the reach of an average salary earner in Myanmar. Yangon will see skyscrapers rise up within a few years. And in the race to demonstrate to neighboring countries that Myanmar should be regarded as a country on the move, many developers have committed to complete their high-rise projects as early as 2005.

As part of the city future plans, the government is also developing a new town about 10 miles east of Yangon downtown, where it will relocate many of its offices. By decentralizing government offices, more land will become available in the highly sought-after downtown section of the city. But these plans are very ambitious and in some cases highly speculative as the rapidly expanding construction sector attempts to expand sufficiently to meet the tight deadlines imposed. To be sure many challenges lay ahead.

Quality Control Management Policy

The HPSC to ensure quality control in the construction sector has begun issuing guidelines for building of nine stories and higher. The Committee for Quality Control of High-rise Projects formed by the government in August 2003 began issuing the guidelines to construction companies on September. The guidelines, the first of their kind in the construction sector, cover site inspections, geotechnical investigations, structural and architectural designs and set quality standards for concrete and steel reinforcing bars. The guidelines also require high-rise buildings to be earthquake proof. The Committee will inspect construction plans and development sites to ensure that the guidelines are being met.

Every construction company would also need prior approval from the Committee before starting work on high-rise projects. The Committee will charge (K 10) a square foot for site inspections. The Committee has already inspected plans for (2) high-rise projects in Yangon. Plans for another (16) projects are awaiting inspection. The Committee would not have the power to fine companies that fail to follow the guidelines but could recommend that projects not be approved.

Depending on the location, approvals for building projects are issued by either the Ministry or the Yangon City Development Committee which also carry out site inspections. Making high- rise buildings earthquake proof would add up to (5 %) to their cost .Figure released the Department of Meteorology and Hydrology shows that Yangon was affected by (16)

earthquakes in 2001 and 2002 . Of the (9) earthquakes that shook Yangon in 2002 all were classified as being weak.

Industrial Zones Development and Market

The government with a view to developing the industrial sector has established (18) industrial zones at the regions with potential resources, after organizing private industries. Some (7,000) national industrialists are making efforts to the best of their ability to manufacture respective industrial products at the industrial zones.

The Department of Human Settlement and Housing Development (DHSHD) has the responsibilities of establishing new satellite towns incorporating planned industrial zones to promote the national economy through industrial sector and create job opportunities in the new areas. During the period of 1988-1999 totally (15) zones were development in and around Yangon. In 2002 the government has developed (4) new industrial zones and the plots have been ready when electricity supply is available at the end of 2003. Mostly, all these industrial areas are on the banks of the river and also along the high-way. So all these zones offers transportation advantages to manufacturers, industrialists and businessmen, interested in trading in upper Myanmar and delta areas.

The demand had been strong for these zones due to the good location. Basic infrastructure provision in these zones includes electricity, roads, telephones, drainage system and water supply. Moreover the government provides administration offices, commercial facilities, recreational areas, and social infrastructure as well.

Besides, the government has also been developing (3) new industrial zones for two years jointly with private companies. At present in and round Yangon has total of (19) industrial zones, including ones operated by private companies.

Industrial Zone Sales Policy

The government has changed a sales system for the new zones. In the previous zones, some people do not build factories and they just want to hold lands. In 2003, the government does not sell to those who do not intend to build a factory (a building) within six months.

The payment has to be made for (25 %) of the value of plots when the contract is struck. After one month of the contract, the buyer has to finish building at least plinth level while paying another (25 %).If the buyer does not carry on constructing within six months and to find a new buyer, the government will cancel the contract. Sites in the four zones are sold for the prices ranging from (K 12) million and (K 15) million for one acre. The plots vary from half acre to two acres.

Myanmar's Property Market

Myanmar's Property Market is fast becoming the country's most dynamic and high profile business sector, finally enjoying a hard-earned resurgence.

During 2003, developers have come to focus more on building high-rise structure with some planned to reach higher than (25) floors. At last Myanmar developers are being given more freedom than ever before. Taking advantage of the changes in the government building codes which had limited construction companies to structures of eight storeys or less, Myanmar

construction companies are now seizing the opportunity to build high-rise developments for the first time.

Myanmar investors and property developers are now looking to construct more high-rise residential and commercial developments and expect solid returns. In many of the areas targeted for redevelopment major upgrading of existing infrastructure sorely needed. Especially in the downtown area which can only barely meet the expectations of its denizens. The repair or replacement of effecting water, sewage, electrical and telephony systems are urgently need, however developers and building contractors still face major difficulties in acquiring the necessary raw materials to meet requirements However, even as the various city areas are being earmarked for redevelopment, property prices in Yangon have fallen by about {40} percent over recent months. Investors, as well as those wanting secure a good investment and become owner occupiers are now watching the property sector closely.

Increased bank lending to homebuyers is a critical sector in 2004. Operating at the high end of the property market, a few real estate developers have not been as badly affected by the general economic situation as by other developers. Real estate agents echoed the sentiments of the property sector in highlighting the availability of loans for homebuyers to revive the housing market in 2004. While loans were only available on new properties where developers have agreements with banks to lend to homebuyers, a revival of such schemes would have an impact on the whole of the property sector, according to real estate agents. They think that there will be a big change when housing loans are available again.

Myanmar's Rental Market

The Rental Market in downtown Yangon is starting to improve slightly but it will not go anywhere near reaching the level of previous years, according to a recent survey of real estate agents. The market for both residential and business rental property reached a high point in the fiscal year 1996-97, attracting a large number of property investors. The market stayed at those levels until the beginning of the year when it began to dip. Comparing with 2002, the residential rental demand has declined by (50%) and while the business of rental market is still active, it can't be described as buoyant and it certainly isn't upon previous years.. Fall in demand has created a concomitant fall in retail prices.

The trend for many landlords and tenants is to make their own leasing arrangements and bypass real estate agents. But the most significant factor in the depressed rental market is the slowdown of the Myanmar economy. The demand for downtown apartments is now predominantly from the business rental market. The demand for residential rental market has mostly shifted to the outskirt areas.

In the downtown business rental market ground floor units are most popular with proprietor of showrooms, restaurants, and stores, network game owners and beauty parlor proprietors usually for second floor properties in downtown areas.

Business Loans System

We can borrow loans for the purpose of business investments from the government banks and also private banks. All banks consider the following factors in providing loans to the individuals or institutions as the borrower's characters, repayment ability of the borrower, the purpose of borrowing and the security for the loan. Land and buildings, gold and jewelleryes, merchandise, life insurance bonds, government securities and bonds, current/fixed deposits and personal guarantee are as securities. Entrepreneurs those who oppose to the government policies and banking laws, government employees, profiteers, money lenders who charge

unreasonable high interest rates, people those who not doing proper business, people those who not doing well in business, the old persons and people with low and lose character are non-eligible.

Methods of Borrowing

1. Loan

To supervise withdrawn a mount, to reduce loan amount by period, to borrow with the security of flexible (rice), loan method can be used. Loan is executive by account transfer.

2. Overdraft

The overdraft method can be used for security of fixed value.

3. Pledge

In pledge method, the bank can store the merchandise in its own warehouse. So, this method is legally satisfactory.

4. Hypothecation

In the hypothecation method, the bank cannot store the goods by itself. Goods are at the hand of borrower and the bank can control by scrutinizing goods frequently. This method bears high degree of risk so that the loan with this method is only to the most respectable and trust wealthy bearer.

5. Higher Purchase

Higher purchase system is in the form of loan method. The scheme allowed homebuyers to borrow money under a higher purchase system where the buyer could borrow up to 70% of the value of the property and payback the loan after either one year or (18) months.

6. Housing Loan

Housing loan is in the way of overdraft method. The housing loan offered one-year loans at the government-fixed interest rate of 15% per annum. The maximum borrowing period is (5) years and the borrower has to pay by 60 installments with the interest rate of 21% per annum. A bank will provide only for payment concerning with its aligned construction company. In buying single unit housing from its company payment can be made by long- term installments. The Company does not take out the entire amount of the loan, but on a certain amount and interest is charged only on that amount. The banks allow borrowing from 50% to 80% of amount of deeds.

The joint venture between the DHSHD and a developer offered 10-year mortgages, financing 50% of the value of the property at 15% interest under a loan scheme with an aligned bank.

7. Mortgage by Deposit of Title Deeds

According to the transfer of Myanmar Property Act, mortgage by title deeds can be attained in Yangon. The borrowers from (5) cities can borrow by depositing their title deeds. They do not need to sign for deeds of mortgage. The character of the borrower is important for this method.

8. Mortgage by Gold and Jewellery

Mortgage by precious stones can be made in the way of loan method. When gold and jewellery are given as security for loan, the bank allows 80% of the assessor's vale. The rate of interest is 20.5% per annum Repayment period is one year.

9. Mortgage by a new Condominium Law

If a new Condominium Law is promulgated in Myanmar by the government, it is publicly approved. After that there will be a secondary market of housing assets and mortgages.

Conclusion

The real estate business is directly proportionate to the economic situation of the country and that is why we are seeing a decline in the rental market especially the residential apartment market.

According to the government's figures, Yangon, as we know it has an annual requirement for 10,000 houses and apartments to accommodate its rapidly-increasing population, but at present levels of development, construction will only meet (20%) of the figure. In short, developers will find it almost impossible to meet demand.

Many real estate analysts say this is the time for making investment in the property sector, while others say that the market could decline even further. Clearly that situation must change if Yangon specifically, and in generally, are going to keep pace with developments elsewhere in Asia. We should consider how other regional countries solve this kind of problems.

At present, Myanmar is undergoing one of its periodic monetary and financial crises not a characteristic demonetization episode, but a failure of confidence in the country's nascent private banking sector. Trust is the foundation of banking and the key ingredient of a country's social capital. The government is taking systematic measures in raising, maintaining and using public finance after laying down financial and monetary policies.

The government's emphasis has been laid on equitable development of the regions of various states and divisions in the country with the aim of narrowing the gap between rural and urban areas, bringing about development of rural areas where the majority of people reside and raising the living standard of national brethren of border areas.

In Yangon City alone, wards which meet the set standard have emerged and projects have been launched to enable people of the squatters to live in advanced apartments. In addition many modern estate projects and high-rise building projects have been implemented in the city.

To own a proper house is sometimes a difficult problem for the rural people. Thus the low-cost single unit housing project will be launched with the aim of enabling the rural facilities to possess a proper house.

Encouraged news is that the contractors of the project will build the houses not on profit motive, but with the sole commitment to provide shelter needs for the rural people. With this noble commitment the contractors who are none other than the national entrepreneurs, have already shared the duty to build the low cost single units region-wise for the village families all over the nation. As the project will help fulfill the housing needs of the rural people and improve their living standard, it dearly reflects the goodwill of the State towards the national people.

Hopefully, when there is balanced economic growth and social growth in a town or city, peoples' buying power will increase. The government needs to increase housing subsidies.

Besides some form of loan program for buyers and some form of construction materials with affordable prices to the developers and contractors is an effective solution.

Myanmar should be looking to develop housing loan schemes offered in other countries in Southeast Asia. In the future we will see long-term loans becoming available to homebuyers.

Banks will be essential to the resurgence of the property sector in 2004. Myanmar banks can learn a lesson from the situation of last February, 2003. Ideally the banks need to be more cautious in their lending than they were last year. If they monitor borrowers effectively and increase lending to homebuyers then the property market should recover.